winter 2012 bearriver

localinsights

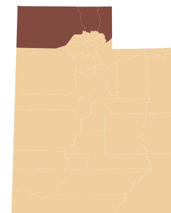
An economic and labor market analysis of the Bear River Area

vol. 1 issue 3 • jobs.utah.gov

in this issue

Large Firms

in the Bear River Region Show a Gradually Shrinking Presence

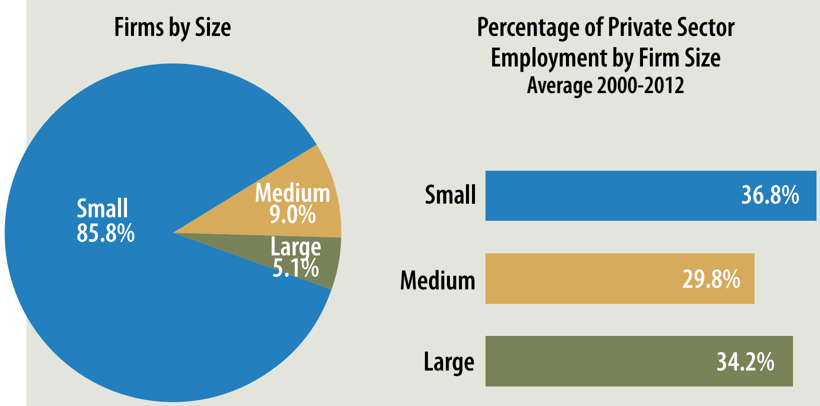


BY ERIC MARTINSON, ECONOMIST

The Unemployment Insurance program provided the basis for the last issue of Local Insights. In it we discussed the amount of time that certain individuals had received Unemployment Insurance. For this issue, data from the UI program once again provides some looks into the labor market, this time in an evaluation of employers. These data have yielded some interesting findings that show the relationships that exist between firm sizes, economic phenomena, seasonal trends and other variables.

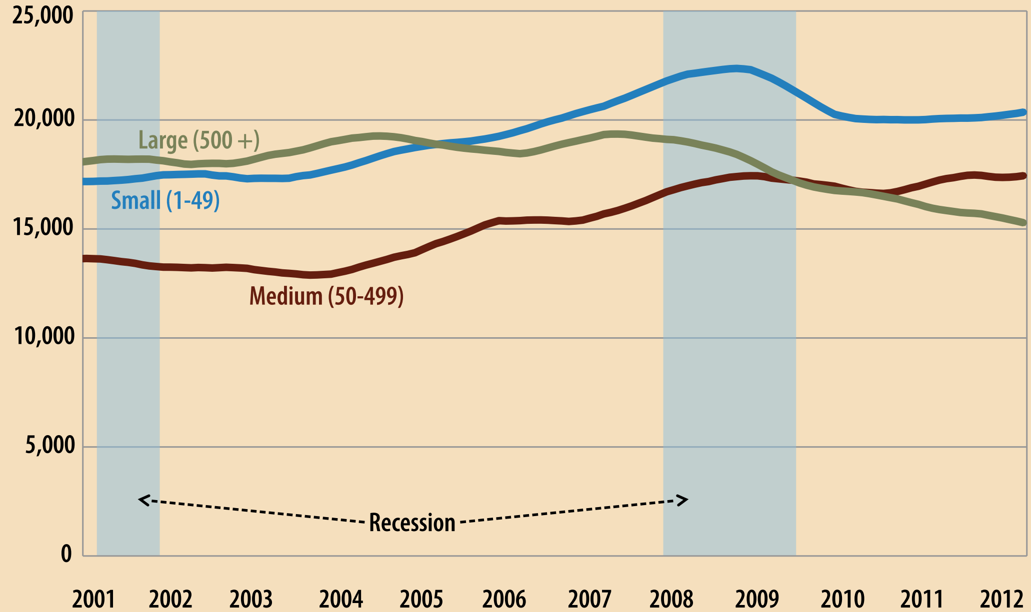
In the state of Utah, 95 percent of firms are small employers (firms that employ fewer than 50 individuals). These 95 percent of firms are responsible, however, for just 35 percent of all employment in the state. Furthermore, while large employers represent only less than 1 percent of all firms in Utah (0.3 percent, to be exact) these large firms are responsible for 30 percent of total employment in the state. To what extent is this the case in rural areas? Do large employers dominate the landscape outside of the large metropolitan areas? To what extent are larger firms shielded from economic shocks (booms and busts), and to what extent do other economic considerations affect different sizes of businesses? A study of employers by firm size yields answers to these and other questions. It is important to first acknowledge the nature of the data as well as its power to explain these answers.

Figure 1: Firm Size and Employment in the Private Sector



Large Firms... Cont.

Figure 2: Total Private Sector Employment by Firm Size
12-Month Moving Average



Caveats

The data used in this analysis come from employers registered in the Unemployment Insurance program. This means that the data will capture much of the employer landscape but some of the picture is not available. For instance, self-employed individuals are not included in UI. As such, the portrait may or mat nor be the same for self-employed individuals. This data set also excludes the public sector; only the private sector is analyzed here.

Another issue is that of defining small, medium and large firm sizes. Unless otherwise explicitly defined, the definitions of firm size follow those used by the Bureau of Labor Statistics. Small refers to firms that employ between 1 and 49 individuals, medium-sized firms employ between 50 and 499 individuals and large firms employ a total of 500 or more individuals. A consistent definition across areas regarding firm size facilitates cross-comparisons, despite the fact that rural areas tend to not have very many firms that employ more than 500 individuals.

A final consideration when defining the parameters of this analysis was the question of how to evaluate those firms who have multiple establishments in various areas. Under the UI program, firms who have more than a single establishment are given a master UI account. This master account is connected to the county in which that master account is filed. To illustrate, suppose Bank X, a firm that employs over 500 individuals in total, has a master UI account in Salt Lake County. These 500+ employees are spread across 50 different establishments throughout Utah. While a particular establishment, say Branch 6 in Box Elder County, may only employ 15 individuals, that establishment (Branch 6) belongs to the master account of Bank X, which resides in Salt Lake County that employs over 500 people. Branch 6, therefore, would be numbered among large firms in Box Elder County despite the fact that Branch 6 employs only 15 individuals. To say that Bank X (represented in Box Elder County by Branch 6) is a small employer may misrepresent the overall effect of large employers in a particular area.

Employment Trends by Firm Size

In the Bear River Economic Service Area, 86 percent of private sector employers are small firms, 9 percent are mid-size firms and 5 percent are large firms. While just five percent of private sector businesses are large firms, these five percent are responsible for one in three jobs in the Bear River region. Small employers provide jobs to 37 percent of all private sector employees, and mid-size firms make up the balance of private sector employees in the area. These numbers are comparable to employment at the state level. In fact, statewide, less than one-half of one percent of all firms are large but they account for 30 percent of total private sector employment [Figure1]. These statistics underscore an important reality for both the state and the Bear River region: large employers are a big deal. Large employers have been following a downward trend of employing lower proportions of private sector employees in Bear River over recent years.

Figure 3: Private Sector Employment by Large Manufacturing Firms as a Percentage of Total Private Sector Employment

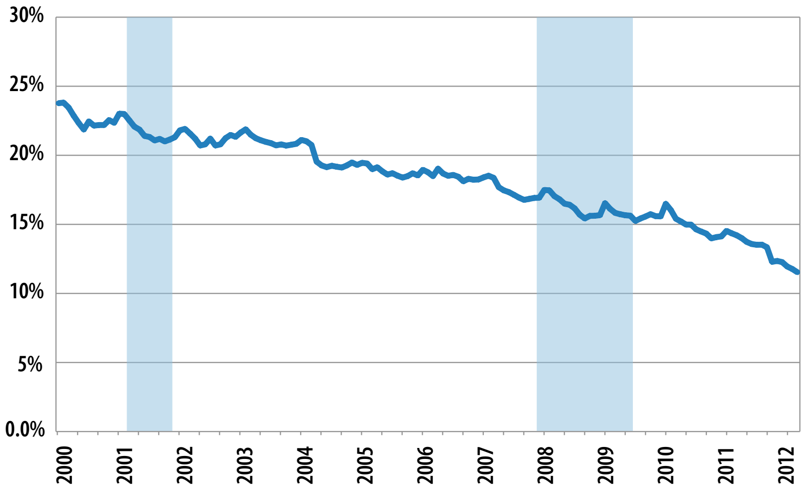
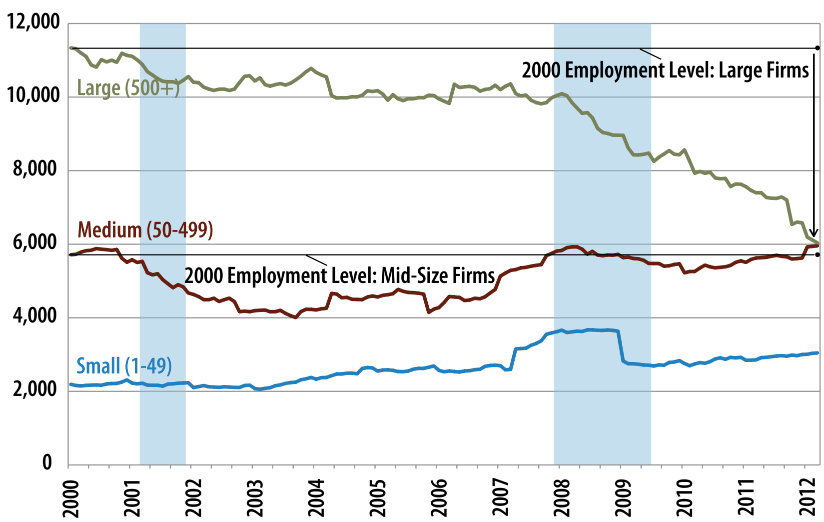


Figure 4: Private Manufacturers by Size



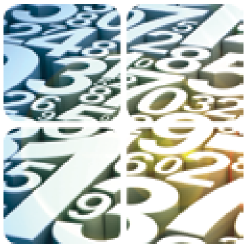
One cannot say definitively that any one type of employer typically dominates the Bear River labor market landscape on the basis of size. Notwithstanding the importance of large employers in providing jobs to the Bear River area, from 2000 to 2005 large and small employers were neck-in-neck in terms of the number of total jobs. What happens after this period is a trend that shows a steady decline in the number of jobs the large employer class provided. At the same time, mid-sized employers increased the number of jobs they offered. Although all three size classes of firms were affected by the recent recession, only the large employers so far have failed to reverse the drop in job levels [Figure 2].

Industry Trends

As the Bear River region has seen a slip in jobs at all levels of business size in the aftermath of the Great Recession, a look at firm size through industries could help shed some light on the dynamics of the recession's overall impact on businesses of different size.

Manufacturing in the region accounts largely for the downward trend in private sector employment among large employers, as the levels of manufacturing jobs have been slipping over the last half of the decade. In January 2000, one half of one percent of total firms were large manufacturers, yet this minuscule number of manufacturing firms accounted for 24 percent of total private sector employment in the region. This share has fallen steadily to 11.5 percent in March 2012 [Figure 3]. Employment in neither mid-size nor small firms has risen to the level needed to compensate for the loss of employment within the large private sector manufacturing firms. In fact, a gap in January 2000 of 5,600 employees between large manufacturing firms and midsize manufacturing firms has all but completely closed by March 2012, with employment by mid-size firms still not yet having broken the 6,000 employee bound [Figure 4].

The construction industry, in Bear River and the state, is mainly employed by small firms. In Bear River, small private



Large Firms... Cont.

construction firms saw an enormous boom in employment beginning in 2003 that was followed by a bust of the same magnitude, ending at job levels slightly lower than when the boom began almost nine years before. It stands to reason that the small firms in this industry would be the most exposed to the economic shock the 2008 crisis brought, while mid-size and large employers saw relatively little change in private sector employment over this timespan. Mid-size and large firms were affected substantially less by the recent recession.

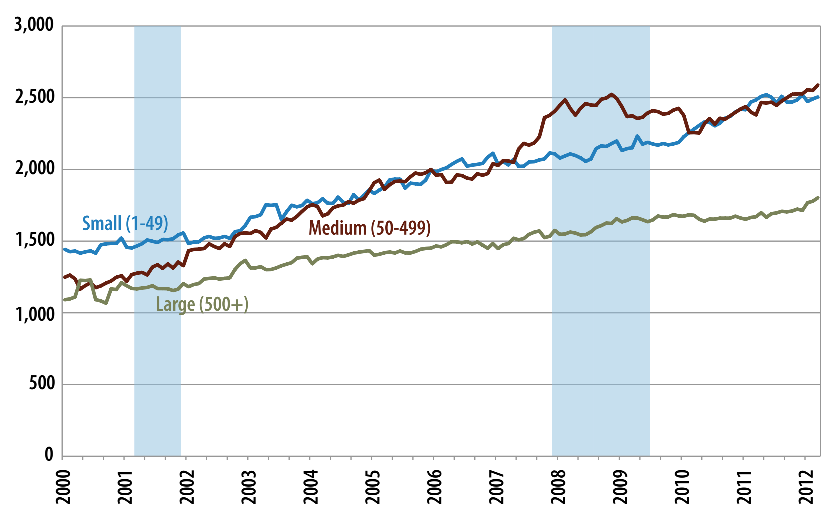
Since 2003, retail trade jobs have mostly come from both large and small firms. Adjusted on a 12-month moving average to account for seasonality, trending shows that both large and small retail firms were affected to roughly the same degree, though the smaller firms seemed to have felt the sting of the recession sooner than large firms did. Since 2003, each of the large and small classes of business have employed between 2,500 and 2,700 individuals in the area. Both size classes in this industry seem to have hit the business cycle trough and are showing signs that point toward recovery. Though mid-size retail firms employ fewer individuals, the employment trend within this size class tends to mirror that of small firms.

The private sector healthcare/social services industry in the Bear River area showed relatively constant growth in private sector employment over the past decade at all levels of firm size [Figure 5]. Even throughout the boom and bust period between 2005 and 2010, small, medium and large employers alike grew at a steady rate. Interestingly, employment within mid- and large-size healthcare/social services was essentially on par in January 2000, but mid-size employers started pulling away toward parity with small firms. This parity, with the exception of a brief boom/bust period for mid-size firms from 2007 to 2010, continues today. While employment in large private sector healthcare firms also grew steadily, it grew at a slightly slower pace.

The Bear River Region has been driven as much by large employers as by other employer size classes given the manufacturing presence in the northern part of the state. The industry's consistently downward trend has had a substantial impact on employment in the region. Whereas less than 1 percent of large firms were manufacturing firms over the past decade and whereas these employers were once responsible for one in four private sector employees, this rate has fallen to just 11 percent. Furthermore, while small and mid-size firms have seen a recovering trend since the Great Recession, large employers have yet to reverse the employment trend in general.

Studying employers by firm size over time allows one to see the evolving nature of the labor market. Analyzing these dynamics at the sub-state level lends itself to unique, localized perspectives into regional economies, which is essential for employers, prospective employees and policy-shapers tasked with making big decisions. The effect of economic shocks can be seen in the historical series, and the effects of these shocks are different within different industries. These differences are based not only on firm size but also on regional economies. The way firms decide to deal with an ever-changing economic landscape, in turn, influences other firms around them as well as the broader economy.

Figure 5: Private Sector Healthcare/Social Services Firms by Size



Bear River Economy Update in a Minute

BY LECIA PARKS LANGSTON, ECONOMIST

How is the Bear River economy performing? Here is what county-level indicators reveal about the economy.

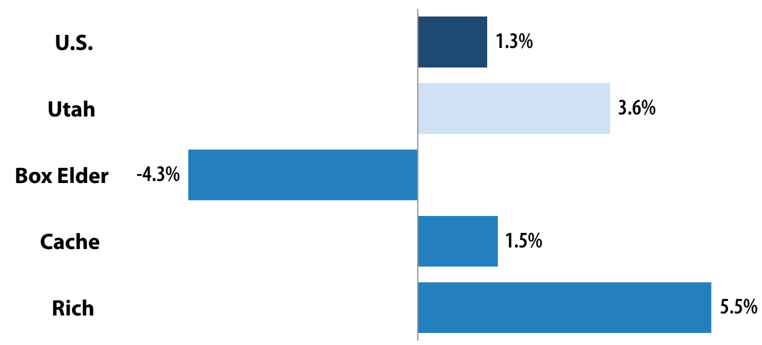
Box Elder County

The best indicator of local economic health or malaise is the year-to-year change in nonfarm employment. Unfortunately, this particular indicator shows that Box Elder County is continuing to shed employment. The county started heading down the road to recovery back in 2010. However, that road has yet to lead to expansion and job growth. The county slowly edged toward economic expansion in mid-2011, only to take one big employment step backwards by the end of the year.

- Between June 2011 and June 2012, Box Elder County nonfarm employment decreased by 4.3 percent. Overall, jobs are down almost 730 positions. The June decline proved representative of the second quarter as a whole and illustrates Box Elder County's continuing economic struggles.
- The ongoing hemorrhaging in manufacturing jobs is driving the current state of affairs. Since June 2011, manufacturing payrolls have slipped by almost 900 jobs. Box Elder production employment peaked at 8,200 positions back in early 2008. As of June 2012, manufacturing employment totaled only a fraction of that figure — 4,500 jobs. Layoffs at ATK have undoubtedly underwritten the current contraction.
- However, manufacturing isn't the only job loser of note. Public education employment has dropped decidedly over the past 12 months.
- There is some good news in this seemingly clouded economic picture. Professional/business services employment jumped dramatically. This industry includes temp firms. Hiring in temporary services often proves a precursor to employment gains in other industries.

The good news for Box Elder County is that professional and business services employment has jumped dramatically, including temp firms. This is often a precursor to employment gains in other industries.

Figure 6: Bear River Year-Over Change in Total Employment June 2011–June 2012

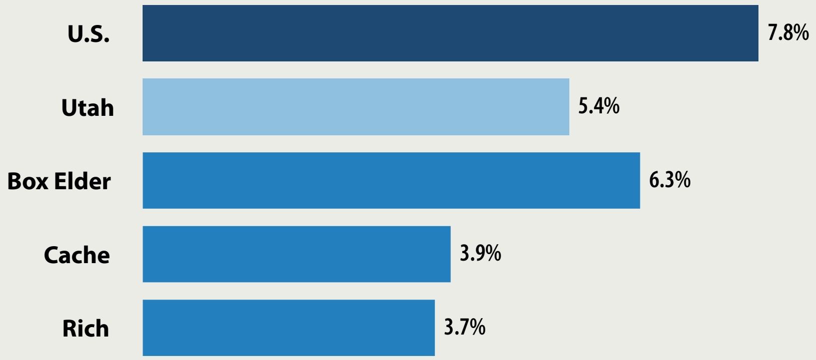


Source: U.S. Bureau of Labor Statistics; Utah Department of Workforce Services.

Bear River Economy In a Minute

- Other industries also joined the ranks of expanding sectors. While the gains were not particularly large, construction, wholesale trade and private education/ health/social services all showed gains of at least 30 new positions.
- Box Elder County experienced a brief surge of joblessness earlier in the year, but unemployment rates seem to be edging down once again. As of September 2012, the county's unemployment rate stood at 6.3 percent — down almost a percentage point and a half from the previous September. Box Elder County does provide jobs for a fair amount of workers who live in other counties, suggesting that unemployment from the manufacturing layoffs is actually showing up in the broader range of surrounding counties.
- Box Elder County's September 2012 unemployment rate is currently sandwiched between a higher national unemployment rate (7.8 percent) and a lower statewide average (5.4 percent).
- Residential construction permitting activity is a pinpoint of light in the job-loss dominated economy. Most nonmetropolitan counties have yet to see any improvement in home-permitting. However, the number of dwelling permits issued in the first seven months of 2012 measures 26 percent higher than permits for comparable months in 2011. On the other hand, a large proportion of these permits were approved in multi-family units as opposed to single-family homes.

Figure 7: September 2012 Seasonally Adjusted Unemployment Rate



Source: U.S. Bureau of Labor Statistics; Utah Department of Workforce Services.

- New, nonresidential construction permit values are down 24 percent for the first seven months of 2012. Although most struggling nonurban counties have at least seen their sales improve, Box Elder is facing its sixth straight quarter of declining gross taxable sales. Compared to the second quarter of 2011, second quarter 2012 sales are down 5.3 percent.

Cache County

Cache County dug its way out of recession and into expansion earlier than most. Job growth was headed along a nice moderate path until completion of a major pipeline construction project plunged it back into the realm of employment declines. Of course, the loss of these temporary construction jobs proved far less devastating to the county's economy than any loss of positions in the county's bread-and-butter industries. Now the county is back in an expansionary mode. However, the level of job growth appears rather mediocre. The picture painted by the county's economic indicators as a whole does appear optimistic.

- Cache County's total nonfarm jobs increased by 1.5 percent in the 12 months preceding June 2012. While the additional 750 new jobs created over this timeframe are certainly welcome, they don't present the level of growth necessary to firmly establish Cache County as economically healthy.
- Perhaps the best news is the relatively broad-based nature of current job growth. Most major industries (those at the two-digit North American Industry Classification level) are producing new jobs and most are showing healthy rates of expansion.

- The public sector created the largest number of new positions over the past year. Many of these new jobs can be traced to higher education.
- Manufacturing also stepped up to the plate with an additional 225 positions. Information, private education/health/social services and leisure/hospitality services all generated job gains of at least 80 positions.
- Job losses, when they did appear, proved relatively minor. Retail trade (which dropped about 70 jobs) showed the only decline of note.
- Cache County certainly sports an unemployment rate to boast about. In September 2012, joblessness measured 3.9 percent. That's almost as low as in the oil/gas-boom counties of the Uintah Basin. Even Utah's relatively low jobless rate of 5.4 percent registers noticeably higher than the Cache County figure.
- New home permits in Cache County for the first seven months of the year almost doubled the comparable number for 2011. This good news may be tempered by the fact that more than half of the permitted units were in multi-family buildings. On the other hand, the gain does signal that the housing market is correcting itself.
- On the other hand, new nonresidential permit values, which are generally more erratic, are down 55 percent.
- Gross taxable sales joined the ranks of Cache County's positive indicators. Compared to second quarter 2011, sales for the second quarter of 2012 are up 5.4 percent. However, since the beginning of 2011, the county experienced as many quarters of declining sales as they have of improving sales.

Rich County

Just like many of its less-populated and rural peers, Rich County had shown earlier signs of recovery, but failed to reach expansionary territory. Preliminary figures for 2012 suggest that pattern may have changed. For the time being, job growth has certainly stepped it up a notch. However, only time will tell if this is a sustainable trend.

- Between June 2011 and June 2012, Rich County showed a gain of more than 40 net new jobs (a robust year-to-year increase of 5.5 percent).
- Leisure/hospitality services gains proved the major source of this employment increase. However, both professional/business services and construction made significant employment contributions.
- While a few industries lost jobs, no losses appeared significant.
- Rich County's unemployment rate seems to reflect the recent uptick in employment. In September 2012, joblessness measured only 3.7 percent. That's down significantly from 2011 and measures notably below the state rate of 5.4 percent.
- As in many less-populated counties, home building has yet to evidence signs of improvement. Permits for the first seven months of 2012 are down 71 percent from the same time period last year.
- Moreover, new nonresidential permitting declined by 60 percent.
- Gross taxable sales figures for Rich County continue to suffer in comparison to earlier figures ballooned by pipeline business-related expenditures in 2011. Therefore, don't read too much in the second quarter year-over decline of 86 percent.

Both Cache and Rich Counties' economic indicators appear optimistic.

Cache County's major industries are producing new jobs, and Rich County showed a gain of more than 40 net new jobs.

Workforce Services
Workforce Research and Analysis (WRA) Division
140 E. 300 S. • Salt Lake City, UT 84111
Equal Opportunity Employer/Programs

localinsights

jobs.utah.gov/wi/topjobs/

Executive Director: Jon Pierpont

Director, WRA: Rick Little

Supervising Economist: Carrie Mayne

Chief Editor: Kathy Hopkinson

Designers: Pat Swenson and Annette Ward

Regional Economist: Eric Martinson
emartinson@utah.gov • (801) 526-9404

To subscribe or request a copy, please call: 801-526-9785

Small Business Job Creation

BY MELAUNI JENSEN

In August of this year, DWS turned out a new program created specifically for small businesses — that is businesses that have at least 2 employees but fewer than 100. The department recognized the challenges these businesses face in creating new jobs and helping to build their business in a profitable way. To help strengthen the economy, the program focuses on small-business job creation. This program is called BRIDGE, an acronym for Business Opportunity, Readiness Skills, Implementation, Demand, Growth and Employment Creation.

As revealed in the Fall 2012 issues of *Local Insights*, the Department of Workforce Services is responsible for protecting the investment of employers who contribute to the Unemployment Insurance fund and the employees who work for them. In Utah, there are currently over 84,000 business locations that are covered by the Employment Security Act, and 94 percent of those are private businesses with fewer than 100 employees. Of that group, 90 percent of businesses employ fewer than 20 people. This equates to just over 1,100 business locations, both public and private, which employ 250 or more workers.

Owning a small business can bring difficulties that large businesses do not share. Essentially they need to employ enough workers to sufficiently cover the essentials but still bring in enough money to make a profit. This can be difficult when coming up against unforeseen expenses: equipment breaks down, the cost of goods rise or a natural disaster hits. A small business will also need to manage time efficiently as it tries to grow and run its everyday operations. This can be even more essential in industries that have trouble finding skilled labor and need to provide on-the-job training. The Bridge Program was designed to help offset the cost associated with hiring a new employee, such as advertising, interviewing and training. In just over three months since its inception, 82 companies throughout the state have applied for this program, creating 277 new jobs in the workforce.

This program is funded entirely by penalty and interest payments that have been collected from the Utah Unemployment Compensation Fund and thus requires all approved applicants to participate and be current on all Unemployment Insurance payments. Bridge funds are also provided on a first-come, first-served basis, and businesses are only allowed to apply once per year. As the goal is to create new jobs, a new hire cannot replace an existing position and must be retained for at least 12 months after creation. Qualifying jobs must also pay at least 80 percent of the County Small Business Average Wage; these guidelines can be found in the master packet on the DWS website. Each approved applicant will receive a reimbursement according to the wage and employment status from their new hire, helping alleviate the cost for these businesses.

For more details on how you can participate in this program, contact the nearest employment center, call 1-888-920-9675 or look online at jobs.utah.gov/employer/bridge/index.html.